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New York Clearing House  
Association

Proceedings...

June 4th, 1884

New York

[1884]

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PROCEEDINGS

OF THE

New York

Clearing House Association,

June 4th, 1884.

✓ Address of GEO. S. COE, President of the American  
Exchange National Bank.

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At a meeting of the New York Clearing House Association, held on Wednesday, June 4th, 1884, E. H. Perkins, Jr., Esq., Chairman, presiding, the following resolution was unanimously adopted, viz. :

*Resolved*, That the experience of the associated banks in the New York Clearing House during the recent panic, having again shown that every member of the Association, in a time of general and serious financial disturbance, is involuntarily compelled to make common cause with every other member in the risks attending any practical expedient for general relief, or of any effective combination for the public good ; it is therefore proper and necessary to enquire whether the methods of business, as conducted by the several members of this Association, are uniform and correct in their operation with the public, and equitable to all the banks which are thus bound together in the Clearing House Association.

Mr. Geo. S. Coe, President of the American Exchange National Bank, in presenting this resolution, made substantially the following remarks, which were ordered to be printed for the use of the members :

MR. CHAIRMAN :

In offering this resolution, I may at first warmly congratulate this Association and the country at large, upon the great good which has been accomplished in the recent financial crisis by means of the organized power of this combination of banks.

After the failure of the Marine Bank, followed as it was soon, by the announcement of the startling events connected with the Second National, the whole community was stirred to its depths with excitement and apprehension, fearing every form of financial

disaster. The reputation before enjoyed by these institutions, and the eminence of some of the men directly and indirectly involved in the failure were such, that faith in human character was for the moment almost destroyed.

As bank officers, we were called here together suddenly by the promptness of our friend Mr. Tappen, and unanimously decided to re-establish our clearing house expedient for the issue of loan certificates, which had proved so effective in former great public exigencies, and we appointed a committee of safety, to provide for any new event that might occur. Immediately after that meeting the suspension of the Metropolitan National Bank was reported, which added still greater intensity to the already inflamed condition of the public feeling.

Under these circumstances, the Clearing House Committee were summoned together at midnight, to examine the condition of the institution, and to decide what action should be taken respecting it. A fearful responsibility was thus hastily thrown upon that committee. It was impossible in a few short hours, and in the apprehension of further possible events, to reach a definite conclusion upon the value of the large and diversified assets of that bank. When we examined its books, this most important fact at once appeared: that it owed some eight to nine millions of deposits, a large proportion of which consisted of the reserves of interior banks, which could not be imperiled or locked up for another day without producing a further calamity of wide-spread dimensions throughout the country. It was also evident that the consequent certain suspension of many banks in the interior cities would occur, and be followed by the suspension of business men depending upon them, and by heavy drafts upon those banks here which held similar deposit reserves, and that the immediate danger to our city institutions was great just in proportion to the extent of such liabilities and to the amount that each bank was expanded relatively to its immediate cash in hand. That, should the threatened wild excitement pervade the country, a general suspension of banks, bankers and merchants was inevitable, and in such case the magnitude of the loss to every institution would be incalculable.

The Committee therefore came to the unanimous conclusion that it was better to confront the risk of losing one or two millions, if need be, by taking possession of the total assets of that bank, and by paying off its depositors, rather than by waiting to incur the hazard of an indefinite and greater loss, by a general financial and commercial derangement throughout the country; and that it was their manifest duty to promptly accept this grave responsibility, confidently relying upon their associates for approval and support. On behalf of the combined capital and surplus of the banks in this Association, amounting to about a hundred millions, and also to protect the property and assets held by them together, of more than three hundred millions, your Committee unhesitatingly acted, and thus saved the nation from immeasurable calamity. The Metropolitan Bank was obviously the key to the whole situation. When this decision was announced the next morning, confidence was instantly restored, and business resumed its even tenor. Seven-eighths of the deposits of the Metropolitan Bank have already been paid off. Its many shareholders have been saved from threatened personal responsibility, and time is gained in which its large property may be more deliberately converted into money. The restoration of confidence was as sudden as was its loss; so sudden, indeed, that the immensity of the danger can now hardly be appreciated.

I rapidly review these important events, Mr. Chairman, because they have once more illustrated the power and importance of this voluntary Association, and have also shown how the several members comprising it are mutually dependent upon it and upon each other in any great emergency, for the safety and stability of their own banks.

It must be borne in mind, that the banks in New York holding as they do, the reserves of other institutions and of bankers in this city, and also of banks and bankers throughout the country, and standing between home and foreign commerce, are the last resort of this whole nation for cash reserves, and that a financial disturbance or distrust in any part of the land, is sure to bring upon them a greater or less demand. Acting singly and alone, what could each one of sixty or seventy independent institutions have done to stem the tide which,

in such an unnatural and simultaneous call for money from every quarter of an alarmed nation, must have swept over them? No time was allowed to any bank to gather in its loaned resources, and no power on earth could so suddenly respond to a demand that—not any natural commercial want—but general demoralization and wild panic alone had so unexpectedly created. It is perfectly apparent that without this combined support, each bank would have been, not only powerless in itself, but the occasion of peril to others. It was only because we were thus associated, and had in hand the printed forms and instruments provided in past experience, that we were able, at the tap of the drum, instantly to fall into line, and present an unbroken front and a disciplined force, to this formidable enemy. Our numbers, now no longer a weakness, were thus converted into the greatest strength, and we were able easily to carry away this heavy and disabled member, and to relieve its creditors, shareholders and friends from the danger of utter destruction, and also to arrest the panic so rapidly spreading. I think the Association may well feel proud of this achievement, which for promptness, efficiency and breadth of influence, has no superior in the annals of commerce.

Now the Association, being of such importance and the connection with it of each member, being of this peculiar character, how can any honorable gentleman among our number claim the right to selfishly pursue his business in utter disregard of these delicate relations by which the Association itself is sustained, and the business of the nation is safely conducted? We are in a most important sense directly responsible for each other, and cannot avoid being disturbed by the ignorance, selfishness or immoral conduct of our most remote members.

Crises will arise in the future as in the past, and it is not only just but necessary, that we adopt such safe and uniform methods of business as experience has approved, that we clearly understand what those methods are, and freely invite from each other the utmost scrutiny in their observance. In the light of recent experience, it seems no longer credible or possible, that an intelligent body of men, composing an Association of such dignity and importance as this, can deliberately consent to remain responsible partners in times of peril,

with those who are eager competitors and antagonists in days of prosperity. The burthens, responsibilities and profits of this great trust ought to be shared together upon recognized and uniform conditions, with special reference to the public welfare; and the only basis of competition for such business, should consist in superior character, fidelity and intelligence in its management. Thus can this Association become one homogeneous body, composed of many members, like the government under which we live, and capable of efficiently performing the highest duties, such as single financial institutions—conformably to their political constitution—in older countries, render to commerce, in being the safest custodians, and the ultimate resort of the money reserves of the people.

The issue of loan certificates, although practically equivalent to a supplemental issue of currency, *exclusively for local uses between the members of the Association*, are only in fact, convenient instruments by which the bills receivable and negotiable securities belonging to one bank are readily transferred to another, in exchange and as a substitute for its ready money. Thus covering the weaker by the stronger, and in fact, by all the other banks in the Association during a time of common peril. For the time being, these certificates form a connecting medium between the banks, by which they all substantially become one in power, through the ebb and flow of the vital elements which compose them, and by which their total money in hand is made available at any special point of danger. In one sense our action was outside of law. In fact, the law could never anticipate such experience, nor establish a union so effective, and any legislation to enforce such generous and voluntary coöperation would only prevent it. The occasion was sudden and momentous, and the banks proved equal to the occasion. It was the same after the panic of 1857, when, as State institutions, our similar organization first originated. Also in 1861, after the battle of Bull Run, when with our colleagues in Boston and Philadelphia, we united and furnished the government from week to week in its greatest extremity, a total of one hundred and fifty millions in gold. Likewise in 1873, when the country was again convulsed by financial trouble. In all these great financial disturbances—each one like the

present, but originating from a different cause—the beneficent influence and power of this Association were fully illustrated, and some of us now present can bear testimony to the fact that several banks here represented, owe their continued existence to the protection afforded them upon one or another of those important occasions.

I appeal to you members of the Association to give this subject the most serious consideration. We are responsible not alone to our directors and stockholders. Our responsibility takes a far wider range. Like the Bank of England in the British financial system, the banks composing the New York Clearing House Association are the final reservoirs of the cash reserve of the nation, and its refuge in commercial commotion. Every one of the thousands of banks and bankers throughout the land has intimate financial relations with us, and all the multitudes who depend upon them are thus indirectly concerned in the stability and safety of our methods of daily business. Every added facility of communication or of commerce, only tends more closely to unite us to them, and ourselves to each other. The very conditions of modern life compel us to be more and more mutually dependent.

There are three special abuses to which I desire for a moment to call your attention.

*FIRST, the payment of interest upon deposits of money payable on demand.* This subject has upon several occasions in years past been under consideration, and its total abolition has been almost unanimously agreed to among our banks by written contract. Yet by the refusal of one or more members it has failed to become a binding obligation. Like some other great reforms, this one does not admit of partial application or of compromise. An attempt to make exceptions to the prohibition among partners mutually dependent, can only result in entirely releasing them all from any obligation respecting it. Yet every banker will freely admit that the purchase of deposits payable on demand, operates, in some degree, as an absolution of the obligation to be always in condition to meet the contract. Both the giver and the receiver of interest on such deposits, by the nature of the business, substantially, though not

expressly, agree to such use of the money as *may* prevent its *immediate return*.

What, Mr. Chairman, is the nature of bank deposits? Every responsible person, in regulating his own affairs, must withhold from permanent investment, and keep in ready money, enough for his current wants. *This is his reserve.* When such sums, for greater safety, are placed in charge of another person, they do not lose their essential character; and when they become further aggregated, and pass into the possession of a bank or banker, they are still subject to the same immediate wants of every original owner, for the very purpose for which he set them aside. And when these rivulets of capital become streams, and streams gather into rivers, and flow towards the ocean until they reach this city, where they come into financial relations with other men in other continents, the parties who here take them in charge assume new and accumulated responsibilities. They are subject not only to the necessities of the people at home, but also to the world-wide influences of commerce.

Now there is a constant and irrepressible conflict going on in the mind of every intelligent man or woman, between the desire to invest their own capital so that it may earn them the utmost revenue, and the necessity of retaining enough of it in ready cash, to meet their current necessities. This question decided, each for himself, that portion of the total which is thus reserved becomes charged with peculiar functions. It is the *national reserve*, and the chief cause of financial disturbances arises from trespassing upon it.

Is it not evident, Mr. Chairman, that when these reserves are attracted by banks and bankers who pay interest for them, they immediately lose their peculiar character, and become, so far, at once changed from reserves into investments, and that their original purpose is greatly reversed? The people's ready cash, by the very condition of receiving interest for it, necessarily passes through the banker into fixed forms never intended. Reserve and investment! Idleness and work! They are adverse and irreconcilable conditions. It is true that in the hands of sound commercial banks, some of these deposit funds may be legitimately used for the best interests of society, in the negotiation of business notes representing articles of human want



and subsistence, passing from production into consumption. This is using the fund by promoting the very object for which each person originally provided it. But such, we all know, is not the tendency nor the operation of the practice now in question. Money payable on demand with interest, is chiefly loaned here upon fixed property intended for permanent investment, and upon bonds, stocks and other obligations made for the construction of public enterprises and works of established purpose, whose large expenditures are not again resolvable into money. They are in their nature *fixed*, and they demand, not their ready cash reserve, but the permanent savings of the people, to construct them. So that temporary loans of reserved capital upon such securities are certain to be called in when they are hardest to pay, because the ready money reserves so injudiciously absorbed by them, are called back by their owners in apprehension or for the supply of their own needs.

We all know by experience that those deposits upon which interest is paid, are the most fugitive and evanescent of all. Those who place them with us well understand their danger. While they receive interest, they do so with doubt and suspicion of those who allow it, and with the consciousness that they themselves are partially compromising principle in placing them with those who are willing to pay the price.

From the very start, the vicious practice of paying interest for the custody of the people's cash reserves, pursues such funds like an enemy from place to place, and impairs their integrity at every point. And when those deposits have at last concentrated in New York banks, the same evil overtakes them there, all tending to the reduction of tangible cash assets to the lowest point, and to the weakness and impoverishment of the whole country. Arrest this practice here, at the termination of the line, and the reform will of necessity, run back through every link of the chain in other cities, adding strength to the whole, to the incalculable benefit of the nation. Every institution that accepts the reserves of the community, agreeing to return them upon instant demand, gives a full equivalent, in their faithful care. It is in duty bound to retain so large proportion of such deposits in actual cash, that no other

compensation can be safely allowed. Any such payment should be taken at once as a confession that the fund is to be used in some manner inconsistent with its real nature, and is to be placed more or less in peril. Deposits so unnaturally attracted are necessarily capricious and transitory. They fly away at the first whisper of danger, to the detriment of the many who have touched them. Those banks which so purchase them, are objects of special dread to their colleagues in business, while at the same time they are continually held up as patterns of enterprise and as models for imitation. Differing so widely from their associates in principle and in practice, the two cannot work harmoniously together, nor equally and honorably share the burthens of a national financial system, whose stability requires the New York banks voluntarily to stand firmly and compactly together as one united body.

Experience among ourselves has again and again proved, that the interest-paying banks are the first to become embarrassed by any kind of financial disturbance, even if they themselves are not the means of producing it, and that they are then almost alone in being compelled to seek protection from the loan committee, by a pledge of their securities.

Will a few members of this Association on the one hand, longer continue a practice that subjects them to this humiliation? And is it just, on the other, for a large majority to tacitly submit to having their business thus drawn away, and the community periodically disturbed, by associates whom in the hour of peril, they are compelled for their own protection to support?

There is no necessity whatever, as there is certainly no profit, for the banks in the New York Clearing House, to continue this practice. Public safety, business convenience, and social needs, all absolutely require the service which these banks perform. The commanding position of this metropolis will constantly bring to it all the capital that healthful commerce and trade can safely employ, and any factitious attractions only tend to false estimates of wealth, and betray the community into unprofitable and dangerous enterprises.

If the banks composing this body should unanimously agree to totally abolish this practice, the business of each would not seriously diminish, because no dealer could secure better terms by changing from one member to another, and even if in the course of time, the disparity between the banks in deposits should consequently not continue as great as now, the loss by any one in *volume*, would be more than compensated by a gain in *terms*, and by diminished risk, labor and expenses.

Taken as a whole, whatever the banks composing this Association, pay to their dealers and correspondents as interest upon deposits, is a totally unnecessary and gratuitous payment. It is worse than money thrown away, so far as, and because, it tends to divert the current of capital of the country from its natural flow. If it be expedient for one member to practice it, it is expedient for all; and then the special and selfish advantage to any single one is lost. If it should be continued after our recent experience, it must be distinctly recognized as a defect in our financial system, and a standing cause of contention, and of sharper competition among banks in their pursuit of public favor which must separate the two classes of institutions into known and irreconcilable divisions.

In the business indirectly done through the New York Clearing House, there enters another element which it is also proper for us to consider, as affecting the stability of the whole system. The Trust Companies and other depositories of funds, very much of which are payable on demand and bear interest, are receiving the full benefit of this Association through the medium of one or another of our members, and so they successfully compete with us all. They thus secure every facility of exchanging their checks with all the banks, and are by that means enabled to divert to themselves a large proportion of the current deposits of the city and country, which have always been regarded as a special function of banking institutions. Instead of being Trust Companies in the real meaning of the term, many of them are banks of deposit, paying interest. This large volume of deposits is not only in much greater ratio to capital than are the deposits in banks, but it is supported by no special cash reserve of its own whatever. The only ready means it

has, consist in keeping current balances at credit in banks like other dealers. It thus leans upon the same reserve as do the banks themselves. If such institutions are to enjoy the privileges of the Clearing House, they should certainly at least bear the same burdens which rest upon its members, and also contribute their full share of the reserve funds in cash, by which the stability of the business is maintained. By a strange generosity on the part of the Clearing House Association, it enables these lively competitors to do their business with the public upon better terms than they can do their own, while they do not contribute to the public safety.

*SECOND.* Another abuse to which I invite your attention, is that of *receiving and crediting to dealers as cash in hand, checks drawn upon banks out of the city*. The aggregate amount of such checks in progress of collection by all the members of this body, is not less than ten millions, and may average fifteen or twenty millions. These checks cannot be converted into cash here, in less time than one week, and for that period, they remain as dead assets to the banks. How did this absurd practice arise? Simply by the eagerness of one bank to draw to itself the business of others by superior inducements, an advantage which in the nature of the case could be but temporary. Others in self-defense were necessarily compelled to follow the pernicious example, until the practice became general. But for this practice, this large sum would naturally lie as deposits in New York banks from their correspondents throughout the country, held here for the purposes of exchange. They are now expelled from their natural commercial resting place, and their true position is actually reversed.

*THIRD.* There is still another subject of solicitude with which we are all daily familiar. I allude to the reception of *checks of large amounts*, drawn upon banks which particularly deal with *brokers and operators in bonds and stocks*. The sums represented in such transactions by the nature of the business, are of great magnitude. The custom has become established of pivoting the operations of the Brokers' Board through the banks, by expressing

and accounting for their money value in detail, thus making it necessary to draw upon banks the immense total that is passed from hand to hand. They give rise to checks in sums greatly disproportioned to the capital of banks which keep such accounts, and are the occasion of constant embarrassment to bank officers, who desire to treat their associates in the Clearing House and their own dealers with generous confidence, and mean at the same time to avoid extraordinary risks. The effort has been partially made to conduct this business by a clearing arrangement where shares, not money or checks, are exchanged and only balances resulting from them are thus paid; and it is the earnest desire of bank officers that this effort should be accomplished. I believe that the experiment if seriously attempted can be made successful to the satisfaction of brokers, the relief and safety of the banks, and the good of the community.

The present mode of conducting the transactions of the Stock Exchange, adds enormously, and I believe unnecessarily, to the daily volume of business in the Clearing House; increases the risks of the exchanges between banks, and expresses a false idea of the commerce of the country.

These Mr. Chairman, are *three* most important reforms. Their adoption will remove all cause of alienation and distrust between the banks, members of our fraternity, will unite us together for greater efficiency and mutual protection in doing the public business, and will make the Clearing House Association a power for good, and a tower of strength in the nation.

Our country needs a reliable, ultimate financial resource in time of trouble, such as every other commercial nation in the world enjoys. Here it may be secured, without the danger, which is always apprehended, from any single colossal institution. Each one acting independently, yet all restrained by honorable agreement, the sixty or seventy banks composing this Association, already possess the power to supply, if they will, this long-felt defect in the American commercial system; and that too, not by any deliberately formed legal or corporate organization, more complete than we now possess, but by the simple voluntary adherence to sound and self-

evident principles of business, using our freedom to do right. These considerations must appeal to every man of common justice and common sense. I present them to you now in the belief that the peculiar circumstances which have called us together, will secure for them the most serious attention and cordial assent.

After further discussion, the resolution offered by Mr. Coe, was unanimously adopted and referred to a committee of five members, to consider and report to the Association.

The Chairman subsequently appointed the following as that committee, viz :

GEO. S. COE, Pres't American Exchange National Bank.

GEO. H. POTTS, Pres't National Park Bank.

O. D. BALDWIN, Pres't Fourth National Bank.

JOHN J. KNOX, Pres't National Bank of the Republic.

R. L. EDWARDS, Pres't Bank State of New York.



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